Uruguay: 2012 Investment Climate Statement

Openness to, and Restrictions Upon, Foreign Investment

The Government of Uruguay has traditionally recognized the important role foreign investment plays in economic development and worked to maintain a favorable investment climate. The left-of-center Frente Amplio administration that was re-elected in 2009 stresses the importance of local and foreign investment for social and economic development.

Uruguay and the United States signed a Bilateral Investment Treaty (BIT) in November 2005, which entered into force on November 1, 2006. Uruguay and the United States also signed an Open Skies Agreement in late 2004 (ratified in May 2006), a Trade and Investment Framework Agreement (TIFA) in January 2007, and a Science and Technology Cooperation Agreement in April 2008. Under the TIFA, in 2008, both countries signed two additional protocols on business facilitation and on the environment.

Law 16906 (adopted in 1998) declares promotion and protection of investments made by national and foreign investors to be in the nation's interest. The law states that: (1) foreign and national investments are treated alike, (2) investments are allowed without prior authorization or registration, (3) the government will not prevent the establishment of investment in the country, and (4) investors may freely transfer abroad their capital and profits from the investment. Decrees 455/007 and 002/12 (adopted in November 2007 and January 2012) regulate Law 16906 and provide significant incentives to investors that have contributed to a strong increase in foreign and local investment.

Aside from a few limited sectors involving national security and limited legal government monopolies in which foreign investment is not permitted there is neither *de jure* nor *de facto* discrimination toward investment by source or origin, and national and foreign investors are treated equally. In general, the GOU does not require specific authorization for firms to set up operations, import and export, make deposits and banking transactions in any particular currency, or obtain credit. Screening mechanisms do not apply to foreign or national investments, and special government authorization is not needed for access to capital markets or to foreign exchange. In tenders for private sector participation in state-owned sectors, foreign investors are treated as nationals and allowed to participate in any stage of the process. Bidders on tenders should be prepared for a lengthy adjudication process.

The World Bank's 2012 "Doing Business" Index, which ranks 183 countries according to the ease of doing business, placed Uruguay 90th globally and 15th within the Latin American and the Caribbean region (32 countries). Uruguay gets high marks in the categories "starting a business" and "getting credit," but lags in "paying taxes," "registering property," and "dealing with construction permits." Uruguay is ranked as a "mostly free economy" by the Heritage Foundation's Index of Economic Freedom.

Table 1	Index	Ranking	Year
T.I. Corruption Perception Index (10 is lack of perceived corruption)	7.0	25 in 182	2011
Heritage Economic Freedom (100 is entirely free)	70.0	33 in 179	2011
World Bank's Doing Business (1 is easiest for doing business)		90 in 183	2011
MCC indicators are Not Applicable			

Although U.S. firms have not encountered major obstacles in Uruguay's investment climate, some have been frustrated by the length of time it takes to complete bureaucratic procedures and tenders. In May 2010 the GOU launched a new program through which entrepreneurs are able to register and open a firm in 24 hours. The program cut the number of public offices involved in the creation of a firm (from six to one), as well as the number of steps (from 11 to 5) and the number of days required (from 65 to 7). The new procedure also slashed the cost of creating an enterprise. This business-friendly move was part of a larger GOU program funded by the UN Development Programme (UNDP) to consolidate six major business registries, which had not been interconnected, into a single one.

Conversion and Transfer Policies

Uruguay maintains a long tradition of not restricting the purchase of foreign currency or the remittance of profits abroad, even during the harsh 2002 banking and financial crisis.

Article 7 of the U.S.-Uruguay BIT provides that both countries "shall permit all transfers relating to investments to be made freely and without delay into and out of its territory." The agreement also establishes that both countries will permit transfers "to be made in a freely usable currency at the market rate of exchange prevailing at the time of the transfer."

Since 2002 the peso has floated freely, albeit with intervention from the Central Bank aimed at reducing the volatility of the price of the dollar. Foreign exchange can be freely obtained at market rates and there is no black market for currency exchange. The U.S. Embassy uses the official rate when purchasing local currency. There are no restrictions on technology transfer.

Expropriation and Compensation

In the event of expropriation, the Uruguayan Constitution provides for the prompt payment of "fair" compensation.

Article 6 of the U.S.-Uruguay BIT rules out direct and indirect expropriation or nationalization, except under certain very specific circumstances. The article also contains detailed provisions on how to compensate investors, should expropriation take place.

Following a constitutional amendment to implement state control of water services, the GOU took over the operations of URAGUA, a Spanish water company that had operated locally from 2000 through 2005. The GOU and URAGUA subsequently reached a negotiated settlement.

Dispute Settlement

The investor may choose between arbitration and the judicial system to settle disputes. Uruguay became a member of the International Center for the Settlement of Investment Disputes in September 2000. Uruguay's legal system is based on a civil law system derived from the Napoleonic Code, and the government does not interfere in the court system. The Judiciary is independent, albeit sometimes slow.

The U.S.-Uruguay BIT devotes over ten pages to establish detailed and expedited dispute settlement procedures.

Performance Requirements and Incentives

Article 8 of the U.S.-Uruguay Bilateral Investment Treaty bans both countries from imposing seven forms of performance requirements to new investments, or tying the granting of existing or new advantages to performance requirements.

Local and foreign investors are treated equally. There are no preferential tax deferrals, grants, or special access to credit for foreign investors. Foreign investors are not required to meet any specific performance requirements Moreover, foreign investors are not inhibited by discriminatory or excessively onerous visa, residence, or work permit requirements. The government does not require that nationals own shares or that the share of foreign equity be reduced over time, and does not impose conditions on investment permits.

The investment promotion regime is regulated by Law 16906 and Decrees 455/007 and 002/12 (passed in November 2007 and January 2012). Law 16906 grants automatic tax incentives to several activities including personnel training; research, scientific and technological development; reinvestment of profits; and investments in industrial machinery and equipment. Other benefits provided exclusively to industrial and agricultural firms by Law 16906 have in practice been superseded by Decree 455/007 that has a wider scope.

There are also special regimes to promote the tourism industry and hotel construction, renewable energy, naval industry, production of electronics and electronic equipment, call centers and construction of agricultural machinery. Special regimes also apply to forestry, printing and communications industries, exploitation of hydrocarbons and biofuels, exports of software, and production of vehicles or auto parts. Investors can combine benefits, applying for certain tax benefits under Decree 455/007 and for other benefits under sector-wide special regimes.

Decree 455/007 grants significant tax incentives to investors in a wide array of sectors and activities. Certain activities –such as the purchasing of land, real estate or private vehicles– are not eligible for the benefits. A matrix based on pre-defined criteria list includes the project's: (1) generation of jobs; (2) contribution to research and development (R&D) and innovation; (3) increase of exports; (4) contribution to geographic decentralization; (5) use of clean technologies; and (6) improvement of social indicators.

The principal incentive consists of the deduction from corporate income tax of a share of total investment (up to 100%) over a certain period. Other incentives include: 1) exoneration from tariffs and taxes (including VAT) on imports of capital goods and materials for civil works that do not compete against local industry; 2) exoneration from the patrimony tax on personal property and civil works; 3) refunding of VAT paid on local purchases of materials and services for civil works; and 4) special tax treatment of fees and salaries paid for research and development. Decree 455/007 also streamlined procedures for firms requesting tax exemptions and established a "single-window" process to channel investment requests and guide investors.

Local and foreign investors reacted positively to Decree 455/007. The number of investment proposals that were eligible for tax exemptions doubled in 2008 to 310, valued at over US$1 billion, well above the 58 proposals submitted annually in 2002-2007. Despite the global economic crisis the dollar value of proposals rose 22 percent in 2009, fell slightly in 2010 and climbed 33% in 2011 (Jan-Nov). It is unclear how many of these proposals have materialized into concrete projects.

Decree 002/12 introduced some changes to the list of criteria and provided additional benefits to micro and small enterprises and to firms operating in industrial parks. The decree focused on the quality of the jobs created by the investment (instead of the quantity), eliminated some indicators used in Decree 445/007, and changed the definition of others. While as of January 2012 the GOU had not regulated the decree, it seems that the new provisions will also do away with the previous criterion of relating the size of the tax benefit to be granted to the size of the investment (investment projects were previously classified as small, medium, large, and of "great economic significance"). For further information, please refer to http://www.uruguayxxi.gub.uy.

None of the promotion systems described above differentiates between foreign and national investors.

A government decree establishes that government tenders will favor local products or services, provided they are of equal quality and not more than 10 percent more expensive than foreign goods or services. U.S. and other foreign firms are able to participate in government-financed or subsidized research and development programs on a national treatment basis.

Right to Private Ownership and Establishment

Private ownership does not restrict a firm or business from engaging in any form of remunerative activity, except in two areas: national security interest and legal government monopolies (see Competition from State Owned Enterprises). One hundred percent foreign ownership is permitted, except where restricted for national security purposes.

In December 2011, the Uruguayan Parliament passed Law 18876 establishing a new tax on large landholdings. Supporters of the new law say the legislation will "try to capture –for society– part of the increase in the price of land and discourage land concentration." The law applies equally to local and foreign investors and taxes land property in a progressive fashion –about US$3.20 per acre on land extensions between 4,942-12,335 acres, $4.90 per acre from 12,335 to 24,710 acres, and $6.50 per acre on holdings over 24,710 acres. The number of acres is then adjusted by a productivity index (CONEAT) that measures meat and wool production. The tax (ICIR by its Spanish acronym) was fiercely debated even within the ruling party. Its defenders argue that it will only tax 2.5 percent of agricultural firms that own a combined 36 percent of Uruguay´s land. Its opponents argue that it could be unconstitutional, does not take into account total factor productivity, and that it could end up fostering further concentration of landholdings.

Protection of Property Rights

In 2005, almost immediately after taking office, the Frente Amplio administration of President Tabare Vazquez rescinded a 1966 decree that enabled employers to request police action to evict occupying workers. Occupations surged in 2005 and 2006 (from an annual rate of 15-20 per year prior to 2005 to 36 in 2006) and declined in 2007 to 30. In 2008, 150 plants were occupied for one day during a conflict in the metal industry, and seven plants were occupied in a conflict in the plastic industry in 2009. Twenty-one plants were occupied in 2010 (equivalent to 14 percent of total conflicts) and in 2011 another metal industry conflict resulted in the simultaneous occupation of between 30-50 factories (figures vary depending on the sources).

In 2006 the GOU passed Decree 156/06 to restrain excesses and provide for obligatory negotiations between employer and employees prior to employees resorting to occupying the workplace. In practice, however, occupations have been early measures in several labor conflicts. Furthermore, under certain circumstances the decree considers occupations as a licit extension of workers' right to strike, a point of view generally opposed by employers. Courts have ruled to evict occupying workers in several instances. In 2011 the Judiciary backed several requests from workers who opposed occupations and mandated the eviction of occupiers from certain plants. In November 2008, the International Labor Organization released a report suggesting that Uruguay revise its legislation on this issue.

Secured interests in property and contracts are recognized and enforced. Mortgages exist, and there is a recognized and reliable system of recording such securities. Uruguay's legal system protects the acquisition and disposition of all property, including land, buildings, and mortgages. Execution of guarantees has traditionally been a slow process. A Bankruptcy Law passed in 2008 (No. 18387) seeks to expedite such executions, encourages arrangements with creditors before a firm goes definitively bankrupt, and provides the possibility of selling the firm as a single productive unit.

Uruguay is a member of the World Intellectual Property Organization (WIPO), and a party to the Bern and Universal Copyright Conventions, as well as the Paris Convention for the Protection of Industrial Property.

In 2003, Uruguay passed new TRIPS-compliant copyright legislation. The 2003 copyright law represented a significant improvement over the 1937 law. The Office of the U.S. Trade Representative (USTR) removed Uruguay from its Special 301 Watch List in 2006 due to progress in enforcing Intellectual Property Rights (IPR), especially with respect to copyright enforcement.

Patents are protected by Law 17164 of September 2, 1999. Invention patents have a twenty-year term of protection from the date of filing. Patents for utility models and industrial designs have a ten-year term of protection from the filing date and may be extended for an additional five. The law defines compensation as "adequate remuneration" to be paid to the patent-holder. Some industry groups believe that the law's compulsory licensing requirements are not TRIPS consistent and criticize the slowness of the patent-granting process. Other industry groups criticize the lack of a data protection law.

The GOU approved a trademark law on September 25, 1998, upgrading trademark legislation to TRIPS standards. Under this law, a registered trademark lasts ten years and can be renewed as many times as desired. It provides prison penalties of six months to three years for violators, and requires proof of a legal commercial connection to register a foreign trademark. Enforcement of trademark rights has improved in recent years.

Transparency of Regulatory System

Transparent and streamlined procedures regulate foreign investment. However, long delays and repeated appeals can significantly delay the process to award international and public tenders.

Article 10 of the Uruguay-U.S. BIT mandates both countries to publish promptly or make public any law, regulation, procedure or adjudicatory decision related to investments. Article 11 sets transparency procedures that govern the accord.

Efficient Capital Markets and Portfolio Investment

The banking system is generally sound and has good capital, solvency and liquidity ratios. Profitability, in a context of low international interest rates and low demand for credit, is a problem. The largest bank is the government-owned Banco de la Republica, which accounts for about 40 percent of total credits and deposits. Long-term banking credit has traditionally been difficult to obtain. Foreign investors can access credit on the same market terms as nationals.

Uruguay's capital market is underdeveloped and highly concentrated in sovereign debt. While Uruguay is receiving “active” investments oriented to establishing new firms or gaining control over existent ones, it lacks major “passive” investments from investment funds that are an essential source of start-up capital and liquidity for new ventures and companies wishing to expand operations. There is no effective regulatory system to encourage and facilitate portfolio investment.

There are two stock exchanges. An electronic exchange, which encompasses the vast majority of transactions, concentrates on the money market and public securities. The traditional exchange focuses on sovereign bonds. Trading in shares and commercial paper is virtually nil, severely limiting market liquidity. Only seven firms are registered in the traditional stock exchange to issue shares.

A capital markets law (No. 18.627) was passed in December 2009 to try to jumpstart the local capital market. The 138-article law is a substantial revision of the 1996 law, which was only 53 articles long. The 2009 law sought to pass “basic regulatory principles aimed at increasing market transparency, competitiveness and efficiency, as well as protecting investors’ interests” and “comply with IOSCO guidelines and the results of the last IMF Report on the Observance of

Standards and Codes (ROSC) on corporate governance." Among other things, the law offered tax incentives to help develop the capital market, gave more regulatory powers to the Central Bank, and provided for new corporate governance regulations on debt issuers and increased protection of minority shareholders.

Private firms do not use "cross shareholding" or "stable shareholder" arrangements to restrict foreign investment, nor do they restrict participation in or control of domestic enterprises. There are eight investment funds authorized but most are not operating. Risk rating firms first came to Uruguay in 1998.

Competition from State Owned Enterprises

Uruguay maintains state monopolies in a number of areas where direct foreign equity participation is prohibited by law. These include the importing and refining of oil, workers' compensation insurance, and landline telephony. Water sanitation, which had been opened to private-sector participation in the mid-1990s, returned to government control in 2004 after a referendum determined that water is a natural resource to be administered exclusively by the State.

While privatization is generally opposed by the population, some previously government-run monopolies have been open to private-sector competition. Cellular and international long distance services, insurance, and media services are open to local and foreign competitors. Despite competition, state-owned companies have the largest market share in all the aforementioned sectors. Private-sector generation of power is allowed and increasing, but the state-owned power company UTE holds the monopoly on wheeling rights. The national airline, PLUNA, is 75% owned by foreign investors (including significant U.S. investment).

State-run monopolies sometimes contract with foreign-owned companies to provide specific services over a period of time under Build-Operate-Transfer (BOT) systems. Road construction and maintenance, and the construction and operation of both Montevideo's Port Container Terminal and the International Airport, are examples of BOT projects. The state-owned oil company ANCAP has also established associations with foreign partners for off-shore exploration.

A Public-Private-Partnership law (No. 17786) was passed in August 2011. The law formalizes the procedures, responsibilities, and obligations from the State and private investors. According to specialists, while the law in its broadest sense closely tracks the Spanish model, it also incorporates numerous aspects of "Anglo-Saxon" models from the UK, Canada, and Australia. The law provides a wide and neutral definition of Public-Private-Partnership (PPP) and allows various kinds of contracts that enable the private sector company to design, build, finance, operate and maintain certain infrastructures, including brownfield projects. With some exceptions (such as medical services in hospitals or educational services in schools) PPPs can also be applied to social infrastructure. The return for the private sector company may come in the way of user payments, government payments or a combination of both. Procurement process is clear in the law and requires fair and open competition. Interested PPP bidders must demonstrate the background and financial strength asked for in the terms of reference of the PPP procurement process. Unilateral modifications to the contract are not allowed if not agreed up front, which provides stability to the contract.

The GOU believes the law will attract further participation in major infrastructure projects such as highway and railway construction and operation, waste disposal, energy, housing, and security related projects (prison construction).

Most state-owned firms are defined as autonomous but in practice coordinate certain issues, mainly tariffs, with their respective ministries and the Executive Branch. State-owned firms are required by law to publish an annual report, and their balances are audited by independent firms.

Corporate Social Responsibility

The concept of Corporate Social Responsibility (CSR) is relatively new in Uruguay, but many companies do abide by the principles of CSR as a matter of course. Many multinational companies find it advantageous to stake out a CSR strategy and have made significant contributions in promoting safety awareness, better regulation, a positive work environment and sustainable environmental practices. Consumers do pay attention to the CSR image of companies, especially as it relates to a firm's work with local charity or community causes. U.S. companies have proven to be leaders in promoting a greater awareness of and appreciation for CSR in Uruguay.

Political Violence

Uruguay is a stable democracy in which respect for the rule of law is the norm and the vast majority of the population is committed to non-violence.

A 2011 Latinobarometro study pointed to Uruguay as the Latin American country that is simultaneously most supportive of democracy and most opposed to authoritarian governments. Moreover, Uruguayans registered the greatest level of satisfaction with "the way democracy works in practice" among respondents in Latin America. Uruguay also headed Latinobarometro's rankings of political participation and freedom of speech in Latin America.

The Economist's 2011 Democracy Index ranked Uruguay as the most democratic country in Latin America and the Caribbean (LAC), and one of only two "full democracies" in the region, together with Costa Rica.

Corruption

Overall, U.S. firms have not identified corruption as an obstacle to investment.

Uruguay has strong laws to prevent bribery and other corrupt practices. A law against corruption in the public sector was approved in 1998, and acceptance of a bribe is a felony under Uruguay's penal code. Money laundering is penalized with sentences of up to ten years (which also apply to Uruguayans living abroad). Laws 17835 and 18494 (passed in 2004 and 2009) and Decree 226/10 establish a good framework against money laundering and terrorism finance.

Enforcement is steadily improving. Several Uruguayan officials and two judges were prosecuted for corruption in recent years.

Scoring 7.0 points (out of 10) in the 2011 edition of Transparency International's Corruption Perception Index, Uruguay ranked second in the Latin America and the Caribbean region and 25th globally (among 183 countries). The United States ranked 24th with a score of 7.1, and Chile 22nd with 7.2. Uruguay has gradually improved in the Corruption Perception Index over time, from 35th place in 2001 to 25th place a decade later.

Bilateral Investment Agreements

In November 2005, Uruguay and the United States signed a Bilateral Investment Treaty (BIT) to promote and protect reciprocal investments, which was subsequently ratified by both legislatures and entered into force on November 1, 2006. The full text of the agreement is available at www.ustr.gov/Trade_Agreements/BIT/Section_Index.html or http://uruguay.usembassy.gov.

Among other benefits, the BIT grants national and most-favored-nation treatments to investments and investors sourced in each country. The agreement also includes detailed provisions on compensation for expropriation, and a precise procedure for settling bilateral disputes. The annexes include sector-specific measures that are not covered by the agreement and specific sectors or activities which governments may restrict further.

Uruguay also has BITs with Argentina, Brazil and Paraguay (its MERCOSUR partners, signed in 1994) and 31 other countries (Armenia, Australia, Belgium, Canada, Chile, China, Czech Republic, El Salvador, Finland, France, Germany, Great Britain, Hungary, India, Israel, Italy, Luxembourg, Malaysia, Mexico, Portugal, The Netherlands, Panama, Poland, Portugal, Romania, Spain, South Korea, Sweden, Switzerland, Venezuela and Vietnam).

In 2009, the GOU reacted to its inclusion by the OECD in a grey list of jurisdictions that "have not committed to implement the internationally agreed tax standard" and endorsed OECD standards on transparency and exchange of information. In December 2011 an OECD press release stated that Uruguay had signed 18 agreements, which showed "its willingness to implement the global standards" and allowed it "to move up to the OECD's list of countries that have substantially implemented the standard for exchange of information." This communication signaled the removal of Uruguay from OECD's grey list.

According to the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes, as of January 2012 Uruguay has signed 11 Double Taxation Agreements and seven Tax Information Exchange Agreements (TIEAs), although most of them still lack parliamentary ratification. Double taxation agreements exist with Ecuador, Finland, Germany, Hungary, South Korea, Liechtenstein, Malta, Mexico, Portugal, Spain and Switzerland. In turn, TIEAs are in place with Denmark, Faroe Islands, France, Greenland, Iceland, Norway and Sweden.

OPIC and Other Investment Insurance Programs

The GOU signed an investment insurance agreement with the Overseas Private Investment Corporation (OPIC) in December 1982. The agreement allows OPIC to insure U.S. investments against risks resulting from expropriation, inconvertibility, war, or other conflicts affecting public order. OPIC programs are currently in force in Uruguay.

Labor

At 97 percent, Uruguay's literacy rate is the highest in Latin America and on par with that of the United States. However, Uruguay endures longstanding problems in its educational system (including a high dropout rate in high school and poor performance in the OECD's Program for International Student Assessment, PISA) that could reduce the number of qualified workers available.

From a global perspective, respondents to the 2010-11 edition of the World Economic Forum's Global Competitiveness Report identified "restrictive labor regulations" as the "most problematic issue for doing business in Uruguay."

Some foreign investors have also reported concerns about the productivity level of Uruguay's workforce. At a macro level, the GOU estimates that productivity increases account for about half of the strong economic growth that took place between 2005 and 2011. Productivity is usually not included in the negotiations that take place in the salary councils, which were reinstated in 2005. Given the strong economic growth, very low unemployment (that limits future growth based on labor accumulation) and inflationary pressures, the GOU is concerned about fostering productivity and intends to include productivity measures in upcoming wage negotiations.

Salary councils consist of a three party board consisting of representatives from unions, employers, and the government. The councils are responsible for setting the wage increases for individual sectors. If unions and employers fail to reach an agreement to determine the wage increase to be applied for sectors, the government makes the final decision.

Social security payments are high and increase employers' basic wage costs by about 30 percent. An employer can dismiss workers as long as the firing is not deemed discriminatory and the employer pays the worker one month for each year of work, with a cap of six months.

Uruguay has ratified numerous International Labor Organization (ILO) conventions that protect worker rights, and generally adheres to their provisions. The Uruguayan constitution guarantees workers the right to organize and strike, and union members are protected by law against dismissal for union activities. Sympathy strikes are legal. In labor trials, the Judiciary tends to rule in favor of the worker, as s/he is considered to be the weaker party. Labor unions are nominally independent from the government but in practice have a close affinity with the Frente Amplio party, which, currently, is the majority party in parliament and is the party of the current president, Jose Mujica, who was elected to a five-year term in 2010.

The Frente Amplio first came to power in 2005, with the election of President Tabare Vasquez (2005 – 2010). Since 2005, successive Frente Amplio administrations have passed several labor laws strengthening unions and labor rights. The law on the "Promotion and Protection of Labor

Unions," passed in 2006, renders any discriminatory action affecting the employment of unionized workers illegal. Among other measures, the law provides for the immediate reinstatement of the employee if any infringement of the law is proven. Business chambers strongly opposed the bill, arguing that it slanted labor relations heavily in favor of unions.

Following the passage of the law and several other changes described below, unionization tripled from about 110,000 in 2003 to about 330,000 in 2011 (about 21 percent of employed workers). Unionization is particularly high in the public sector.

A law on Collective Bargaining (No. 18566) was passed in September 2009, which among other things established a bargaining system structured at three levels: national scope; branch of activity or productive chain; and bipartite collective bargaining at the company level. The law was adamantly opposed by the two most representative local business chambers and the International Organization of Employers, which filed a case against the government before the International Labor Organization's Freedom of Association Committee in February 2009.

Other relevant labor-related laws include:

1) Law 18099 (passed in 2007) on outsourcing. It was also adamantly opposed by the business community, as it made employers responsible for possible labor infringements on employees by third-party firms that were contracted by the employers. The GOU later passed Law 18251 (also in 2007) to mollify some of the private sector's concerns.

2) Law 18395 (from 2008) that reduced workers' retirement age to 60 for both men and women who have worked for at least 30 years, modified the system for advanced age retirement and provided more beneficial terms to mothers with children; and

3) Law 18399 (also from 2008) that modified the unemployment insurance regime by gradually reducing unemployment benefits during the six month eligibility period, and extending coverage for employees over 50 years old to one year.

On December 2, 2010 the GOU passed a decree providing expedited procedures for evicting occupants of public-sector workplaces. The PIT-CNT (Uruguay's largest labor union federation) initially assessed the measure as unconstitutional. In turn, the business community thought the decree was as a positive step forward, but criticized that the GOU for using a different standard to deal with workers´ occupations in the private and public sectors.

Although investment is rising, there is an ongoing discussion about the impact of the labor situation on productivity and whether labor conflicts scare foreign investors.

Foreign-Trade Zones/Free Ports

The operation of free trade zones (FTZs) is regulated by Law 15921 (from 1987) and the Ministry of Finance's Free Trade Zone Directorate. Thirteen FTZs are located throughout the country. While most are dedicated almost exclusively to warehousing, three host a wide variety of tenants performing various services (e.g., financial, software, and call centers). One in particular was developed as a technology park to provide services and infrastructure for the competitive development of companies with international reach. Two FTZs were created exclusively for the development of the paper and pulp industry, and one for pharmaceuticals.

Decree 344/010 passed in November 2010 introduced some changes in the free zone regime in order to discourage the establishment of shell or “paper” companies in free zones for tax evasion purposes. The Decree requires companies to submit a business plan and limits the term of the authorization to ten years, which is renewable upon GOU review.

Goods, services, products, and raw materials of foreign and Uruguayan origin may be brought into the FTZs, held, processed, and re-exported without payment of Uruguayan customs duties or import taxes. Current government monopolies are not honored within FTZs. Local and foreign-owned industries alike enjoy several advantages in an FTZ, including exemption from all domestic taxes. Customs duty exemptions are applicable to the entry and exit of goods. Additionally, the employer does not pay social security taxes for non-Uruguayan employees who have waived coverage under the Uruguayan social security system. However, Uruguayans must comprise at least 75 percent of a company's labor force to qualify for FTZ tenancy.

Since MERCOSUR regulations treat products manufactured in most member state FTZs (with the exception of Tierra del Fuego and Manaus located in Argentina and Brazil) as extra-territorial and hence charge them its common external tariff upon entering any member country, little manufacturing is done in local FTZs. Goods of Uruguayan origin entering into FTZs are treated as Uruguayan exports for tax and other legal purposes.

Uruguay has other special import regimes in place, including Temporary Admission, industrial zones, private customs deposits and free ports. The Temporary Admission regime allows manufacturers to import duty-free the raw materials, supplies, parts and intermediate products they will use to manufacture products that will later be exported. The system requires a government authorization and that final products be exported within a period of 18 months. The free port and private customs deposits exempt goods that are kept within the premises from all import-related duties and tariffs. While in the premises, merchandise may be labeled, fractioned, re-packaged, or have any other process done to it as long as it does not modify the nature of good. There are no limits for the length of stay of merchandise in the port or for the volume of stored goods.

Foreign Direct Investment Statistics

Foreign Direct Investment (FDI) in Uruguay has been traditionally low (under 3 percent of GDP), even by Latin American and regional standards, because of the country's small market, the lack of major privatization initiatives, and the small number of firms that base their MERCOSUR-wide operations locally. However, inflows of FDI surged in recent years with a seven fold growth since 2004. In fact, in 2010, Uruguay ranked second in the ratio of FDI to GDP in South America, behind Chile but about three times Brazil or Argentina.

Annual inflows of FDI rose gradually from US$332 million in 2004 (2.4 percent of GDP) to $2.1 billion in 2008 (7.0 percent of GDP). While Uruguay continued growing, the global financial crisis cut FDI to $1.6 billion in 2009 (24 percent drop). FDI soon resumed its growth trend and rose to $ 2.4 billion in both 2010 (up 48 percent, to 6% of GDP) and 2011 (on an annualized basis as of the third quarter of 2011). Uruguay's Investment and Export Promotion Agency reports that in January-October 2011 it received inquiries from 160 firms from over 30 countries; most of these firms were from Argentina, Spain and the United States.

The sectors that received the greatest amount of FDI in 2003-09 (latest figures available) were agriculture (forestry, ranching, farming, and slaughterhouses), construction (real estate in Punta del Este, hotels, and office buildings) and industry (chemicals and food and beverages).

Finnish firm Botnia's construction of a US$1.2 billion pulp mill in 2005-06 was Uruguay's largest-ever foreign investment. In 2011-13 Finnish-Swedish-Chilean Montes del Plata is expected to invest an even larger sum –$1.9 billion in plant and $0.7 billion in land– in another pulp mill project. As of early 2012 the GOU is discussing its strategy for mega-mining projects, which is relevant since Indian/UK firm Aratiri has plans to invest about $3.0 billion in the extraction of iron ore.

Four countries –Argentina, Spain, Brazil and the United States– account for about half of total FDI in 2007-09. With an investment of $1.4 billion in the three-year term (equivalent to 28 percent of total FDI) Argentina was the largest investor. Spain accounted for 9 percent ($440 million), Brazil for 7 percent ($381 million) and the United States for another 7 percent ($353 million).

About one-hundred American firms operate in Uruguay and, according to the U.S. Department of Commerce, the stock of U.S. direct investment amounted to $1.4 billion in 2010. Uruguay XXI reports that U.S. investment is distributed among a wide array of sectors, mainly audiovisual services, hotels and recreation, and industry. Major U.S. firms include Weyerhaueser (forestry), Conrad Hotels (tourism and gambling), Sabre (call center), McDonald's (restaurants) and Pepsi (beverages).

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